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CIA-RDP79T00975A030200010099-7

Top Secret 219

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NATIONAL INTELLIGENCE DAILY CABLE

Monday August 1, 1977

CG NIDC 77-177C

DIA review(s) completed.

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National Intelligence Daily Cable for Monday, August 1, 1977

The NID Cable is for the purpose of informing senior US officials.

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ALGERIA-TUNISIA-ITALY: Gas Pipeline

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[redacted] The Italian state oil company has reached agreement with the government of Tunisia on transit rights for a \$2.5-billion natural gas pipeline linking Italy and Algeria. The pipeline is scheduled to begin operation in 1981 with an initial annual capacity of 425 billion cubic feet, rising eventually to 705 billion cubic feet. Algeria does not have sufficient proven gas reserves to fulfill this contract and still meet its other commitments for gas exports.

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[redacted] Negotiations between the Italian company and Tunisia were stalled late last year over the issue of transit fees. Italy must still reach an agreement with Algeria to convert an existing contract for liquefied natural gas to one for gas transported through the pipeline. Use of the pipeline would eliminate the 15- to 20-percent loss of feedstock incurred by liquefaction.

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[] Algeria claims the world's fourth largest reserves of natural gas--130 trillion cubic feet. Only two thirds of these are proven, however. Based on existing long-term contracts and commitments, including the original liquefied natural gas contract with Italy, Algeria has oversold the supply of its proven reserves. Unless new reserves are found or proven or several contracts are canceled, Algeria will not be able to meet its commitments beyond the mid-1990s--five or more years before some contracts expire.

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[] Algeria is firmly committed to liquefied natural gas export contracts totaling 1.3 trillion cubic feet annually and has reached preliminary agreements that would double its overall commitment. Agreements with US companies account for 405 billion cubic feet of the amount under firm contracts and 920 billion cubic feet of the gas tentatively committed. []

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LIBYA: Tight Manpower Situation

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[] *//Libya's recent border clashes with Egypt are likely to accelerate President Qadhafi's plans both to reduce the large Egyptian presence in Libya and to expand the Libyan military establishment. These measures will worsen an already tight labor situation, threaten Libya's economic development program, and disrupt public services.//*

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[] *//Qadhafi appeared to be grappling with the negative consequences of both policies before the recent outbreak of fighting, but he had not made substantial progress on either. He originally intended to increase his military forces by some 70,000 to a total of 100,000 by 1980.//*

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[] *//He also tried to use the threat of expelling Egyptians as a restraint on Egyptian President Sadat. Egyptians working in Libya are an important source of foreign exchange for Egypt. Qadhafi apparently shelved the idea of mass expulsion when Sadat ignored his threat and a number of economic repercussions to expulsion were brought to his attention.//*

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[] *//The increasing tensions between the two countries encouraged the exodus of about 20,000 Egyptian workers on their own. Only those in sensitive government and military jobs were actually expelled.//*

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[] //Manpower shortages were proving to be a serious constraint on Libyan development plans even before the military build-up and the departure of the Egyptians. Investment spending under the five-year plan for 1976-1980 has been running 30 percent behind schedule, in large part because of shortages of skilled labor and management personnel. The government has been unable even to process the paper work needed to initiate many projects.//

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[] //Libya's small population--2.5 million--cannot provide enough workers to man the many ambitious industrial-development, construction, and oil-related projects programmed in the five-year plan. Manpower shortages are compounded by a high illiteracy rate, low rates of female participation, and a general Libyan disdain for labor associated with urban rather than pastoral life.//

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[] //To alleviate the shortages, Libya has turned to foreign workers to expand its labor force. Foreigners make up more than a third of Libya's 900,000-man workforce, and the share is likely to rise over the next decade. Foreigners reportedly already account for 60 percent of the skilled managers and civil servants. A law requiring 70 percent of the employees of foreign companies to be Libyan nationals is rarely observed.//

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[] //The major foreign contingent has consisted of about 250,000 Egyptian workers throughout the economy. In addition, there reportedly are more than 75,000 Italians, Yugoslavs, and Greeks working in the oil, construction, and other new industries. About 6,000 East Europeans work under commercial contracts. Poland and Romania have been active in a number of individual projects, usually connected with infrastructure.//

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[] //The Egyptian community in Libya--including families of workers--probably numbered more than 400,000 at its zenith last year, forming the backbone of Libya's professional, bureaucratic, and skilled workforce. Egyptians have filled many technical and specialized jobs--construction workers on civil and military projects, teachers, doctors, and civil servants. Egyptian specialists also have been involved in the various ministries responsible for preparing the national budget, statistics, and planning.//

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25X1 [redacted] //It will be difficult for Libya to replace departing Egyptians--especially construction workers, whose skills are in short supply throughout the Middle East. Professionals and civil servants who have specialized knowledge of the workings of the Libyan economy also would be difficult to replace. Turks, Pakistanis, and Europeans, often mentioned as possible replacements for Egyptians, generally lack a command of Arabic, which is a virtual necessity in Libya.//

25X1 [redacted] //Other North African countries--Morocco, Algeria, and Tunisia--which could provide Arabic-speakers, would be unable to provide all the skilled manpower required. [redacted] 25X1

25X1 [redacted] CHINA: Army Day Celebrations

25X1 [redacted] China celebrated the 50th anniversary of the founding of the People's Liberation Army yesterday with a large rally in Peking's Great Hall of the People. All the active members of the Politburo except for Chen Hsi-lien, who is visiting Inner Mongolia, were in attendance. Chairman Hua Kuo-feng presided over the rally in uniform, but the day clearly belonged to Defense Minister Yeh Chien-ying, who gave a lengthy keynote address. The newly rehabilitated Teng Hsiao-ping, who holds the titles of vice chairman of the party's military commission and chief of the General Staff, was also prominently featured, in uniform, in press and television coverage of the rally.

25X1 [redacted] Yeh's speech was a comprehensive statement of the army's traditions, goals, policies, and position with regard to the party. Lavish in its praise of Mao Tse-tung, the speech stressed the importance of continuing the army's tradition of absolute loyalty to the party and obedience to the chain of command. One of the keys to ensuring this subordination is the system of political commissars and party committees at all levels of the army, and Yeh strongly reaffirmed its importance.

25X1 [redacted] Yeh and today's issues of *Peoples Daily*, *Liberation Army Daily*, and *Red Flag* magazine deal at length with the issue of military modernization. Yeh called for accelerating the modernization of the People's Liberation Army and repeated the now-standard idea that only through effective political work

can modernization be accelerated. Neither Yeh's speech nor the journals, however, tie the issue of the pace of military modernization to the speed of overall economic recovery.

25X1 [] Yeh reaffirmed the army's loyalty to Hua in the strongest of terms: "With Chairman Hua as our leader, we are assured that the supreme leadership of our party and state will remain stable for a long time to come."

25X1 [] The fact that Chen Hsi-lien was the only major leader to miss Army Day festivities may be significant. Chen is widely believed to have opposed the rehabilitation of Teng Hsiao-ping, and his absence from Peking on the first holiday following Teng's return reinforces that belief. Nevertheless, Chen's trip to Inner Mongolia, which is part of the Peking Military Region, which he commands, has received wide publicity in an apparent effort to convey the impression that his political status is sound for now. 25X1

25X1 [] The turnout for the Army Day rally was not as large as 25X1 that for the 1975 celebrations, []

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NORTH KOREA - USSR: Prices Rise

25X1 [] North Korea's trade with the USSR, by far its most important supplier of machinery, fuels, raw materials, and grain, dropped by 14 percent in 1976 as neither side fulfilled its export commitments. North Korean exports to the USSR fell 24 percent to \$158 million, while imports fell by 6 percent to \$243 million. In terms of volume, however, North Korean exports were probably down 40 percent and imports down 30 percent. The decline appears to be largely a result of North Korean industrial problems and a phasing out of shipments under Soviet aid projects.

25X1 [] North Korea and the USSR last year realigned the prices used in their foreign trade--the first realignment in many years. This adjustment, expected to last through 1980, included much higher ruble price increases than we expected. North Korea's import prices jumped by about one third while its export prices rose only by about one fourth.

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[] The price of Soviet crude oil and petroleum products was increased by more than 70 percent. North Korea has been looking for cheaper oil, but the Soviet price--around \$8 per barrel--is still well below world levels. North Korea, moreover, does not pay hard currency for Soviet oil.

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[] //None of North Korea's major export items was shipped in greater quantity in 1976 than in 1975. Exports to the USSR dropped to low levels in the first three quarters of 1976, but regained some ground in the fourth quarter following Soviet pressure on North Korea to reach the levels specified in the trade agreement. Only a little more than half of the exports specified in the agreement were shipped during the year.//

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[] The decline in Soviet exports was caused in part by the completion or near-completion of Soviet industrial aid projects scheduled for North Korea's six-year plan (1971 to 1976). As a result, machinery exports--nearly half of Soviet exports to North Korea in 1974--accounted for less than 30 percent of total Soviet exports to North Korea last year.

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[] //The Soviets reportedly are determined to force North Korea to meet a higher share of its export commitments and have threatened to suspend petroleum and coking coal shipments. Some curtailment may have already taken place. In the first quarter of 1977, North Korean trade with the USSR fell sharply from the peak reached in the fourth quarter last year. North Korea's continued trade problems, both with the West and the communist countries, will significantly limit its capacity for industrial growth over the next several years.// []

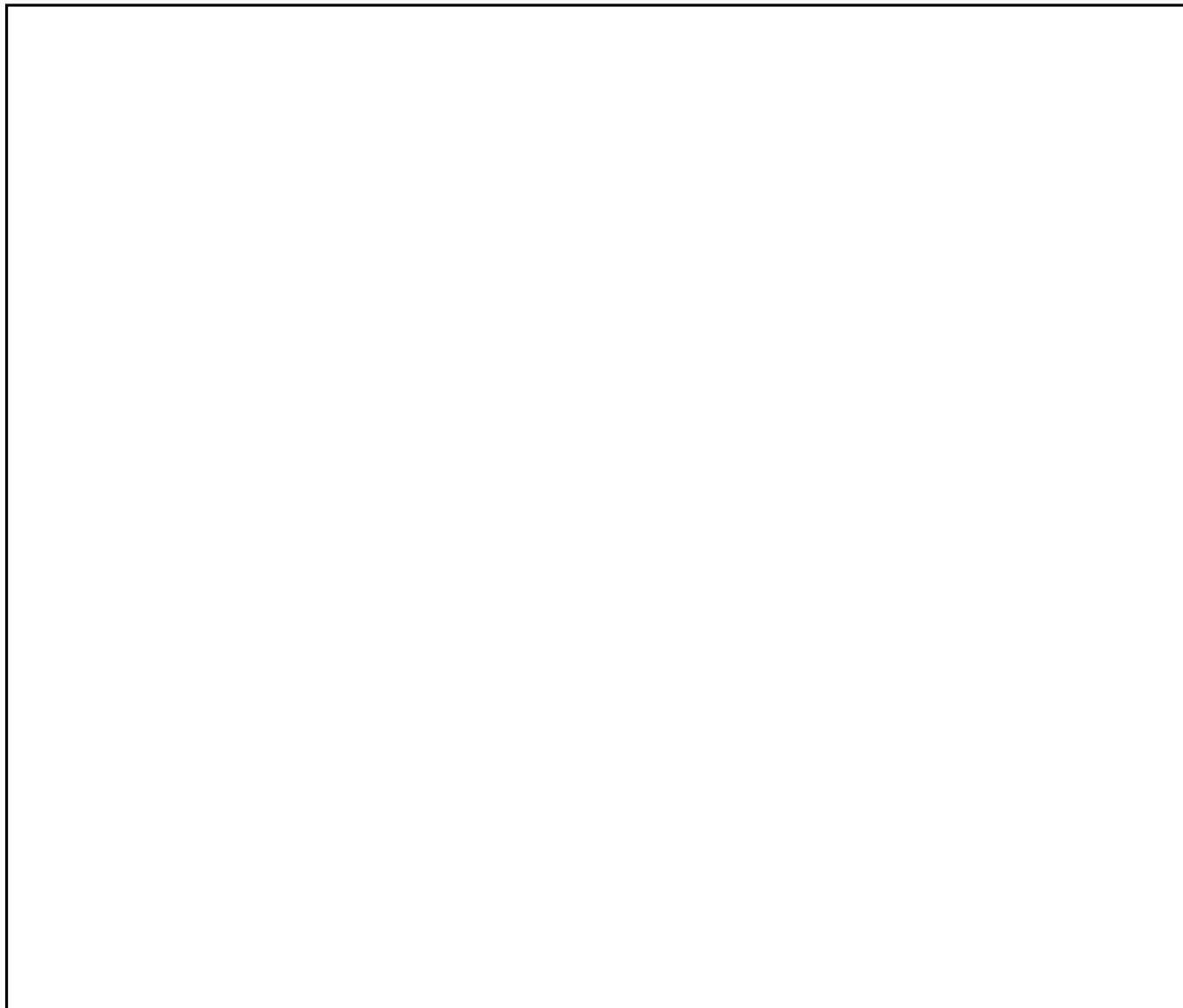
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PERU: Receiving Soviet T-62 Tanks

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[redacted] //Peru may receive up to 100 Soviet T-62 medium tanks by the end of the year, [redacted]

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[redacted] This would be the first time a South American country has received such a sophisticated tank.//

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[REDACTED] one T-62 was already at the military academy in Lima. Soviet advisers may be training Peruvian personnel in the operation and maintenance of the tank. The T-62 is the most advanced tank now being exported by the USSR to developing countries.//

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[REDACTED] //The arrival of T-62s probably would lead to an increase in the number of Soviet military technicians in Peru; there are about 80 there now. Peru's maintenance capabilities have not kept pace with the sophistication of Soviet weaponry entering the country.//

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[REDACTED] //In May, [REDACTED] the Peruvian army had decided to purchase enough T-62s for two battalions, one to be stationed in the north opposite Ecuador and the other in the south near Chile. Peruvian forces reportedly are increasing the size of their tank battalions to 46 or 47 tanks each. The purchase of 100 tanks would fill out these units and allow for spares.//

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[REDACTED] //Peru already has more than 300 Soviet T-55 medium tanks as the frontline armor weapons of its ground units. A T-62 purchase could represent an attempt by Peru to circumvent maintenance problems on the T-55s. The T-62 has a larger main gun but does not differ radically from the T-55. Peru probably would also have maintenance problems with the T-62s.//

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[REDACTED] //Since 1973, the USSR has signed agreements with Peru for more than \$650 million worth of arms--70 percent of the total value was arranged during the past year. Arms orders include modern equipment for both the Peruvian army and the air force. Moscow has delivered this year at least \$250 million

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worth of arms under these agreements, including 26 SU-22 fighter-bombers, 20 T-55 tanks, and surface-to-air missiles. [REDACTED]

[REDACTED]

BRIEFS

EGYPT-LIBYA:

[REDACTED] The cease-fire continues to hold along the Egyptian-Libyan border. There was no significant military activity over the weekend.

[REDACTED] Efforts by Palestinian and Kuwaiti mediators to arrange a truce and schedule a meeting between the Egyptian and Libyan foreign ministers have apparently stalled, however, and the two sides are continuing their propaganda attacks. An Egyptian official denied press reports on Saturday that a meeting of the two sides was scheduled to be held in Kuwait. [REDACTED]

GHANA:

[REDACTED] //Ghanaian head of state Acheampong's announcement last week that he will adhere to his original two-year schedule for a return to civilian rule has drawn fire from the country's educated class.//

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[REDACTED] //A group made up of doctors, lawyers, pharmacists, and others has accused Acheampong of reneging on his pledge--made last month under pressure from striking professionals--to return the government to civilians within 12 months. Acheampong maintains the he only promised to consider the shorter transition period, not to adopt it.//

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[REDACTED] //Angry professionals have begun new meetings to decide on a response. They are likely to resume their strikes in an attempt to add to the public sentiment against Acheampong's five-year-old military regime. [REDACTED]

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